# Phase 1 Research Key Findings

Colorado Secure Savings Plan Board

CORONA INSIGHTS

# Review of Goals

# Goals: The Big Picture

Our goal is to …

Assess the effects that greater financial education among Colorado residents would have on increasing their retirement savings

# Goals: Supporting Goals

- Identify…
  1. The underlying causes for Coloradans not saving enough for retirement.
  2. The number of Coloradans that would increase the amount of their retirement savings.
  3. The amount of increase in retirement savings related to the effects of greater financial education.
  4. The demographics of the Coloradans that would increase the amount of their retirement savings related to the effects of greater financial education.
  5. The type of financial education that is most likely to result in an increase in the amount of Coloradans' retirement savings and the associated cost.
  6. The providers of financial education who are most likely to have the greatest effect on increasing the amount of Coloradans' retirement savings and their cost.

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## Phase 1

- Online Bulletin Board focus groups with the public - one Front Range, one non-Front Range. 64 total active participants.
- Data mining of available databases
  - Mostly national data, but checked against regional data for generalizability to Colorado
- Literature review of available data
- Interviews with experts in retirement planning and financial planning

## Phase 2

- Online panel survey of 1,200 Colorado residents
- Focus groups onsite in three areas of Colorado

# Process

Our plan:

Present Phase 1 key findings, think about strategic direction, and discuss what we'd like to learn in Phase 2.

Phase 2

- Online panel survey of 1,200 Colorado residents
- Focus groups onsite in three areas of Colorado

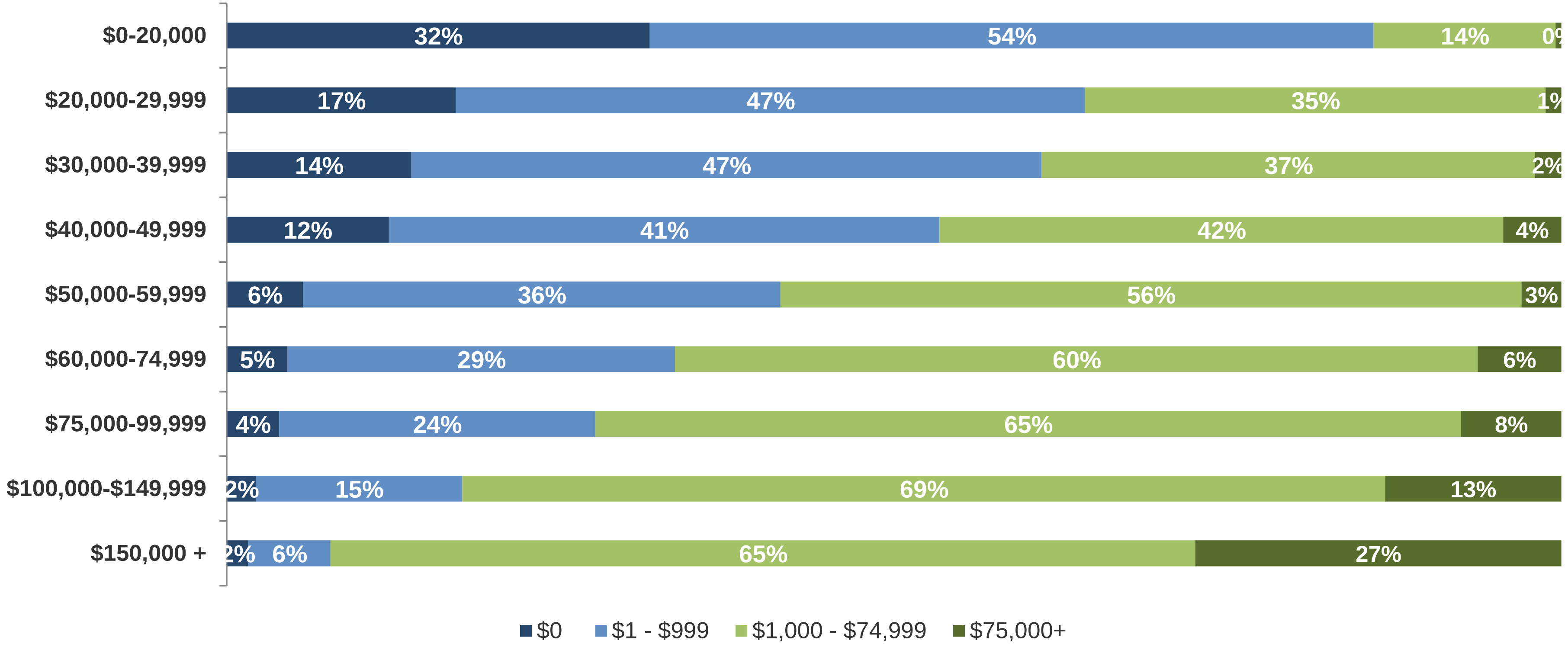

# Key Findings

# Who is Saving and Not Saving?

- Most people are not saving enough.
  - Experts estimated that a median of 75 to 80 percent of households aren't saving enough for retirement.
  - In the public online focus groups, most people did not feel confident they will be able to save enough money for retirement, regardless of income.
    - Most people felt anxiety or stress when thinking about or acting on retirement savings. There is a pervasive narrative that most people will never be able to save enough.
    - A majority of respondents noted they would need over a million dollars saved in order to retire comfortably.
    - In evaluating the adequacy of retirement savings of American families age 25-64, only half of Americans participate in a retirement plan at work, of which most are not meeting maximum contributions. Such means that a vast majority of Americans are not saving at a level that will allow retirement at age 65 with their pre-retirement standard of living (Stanford Center on Longevity, 2016).

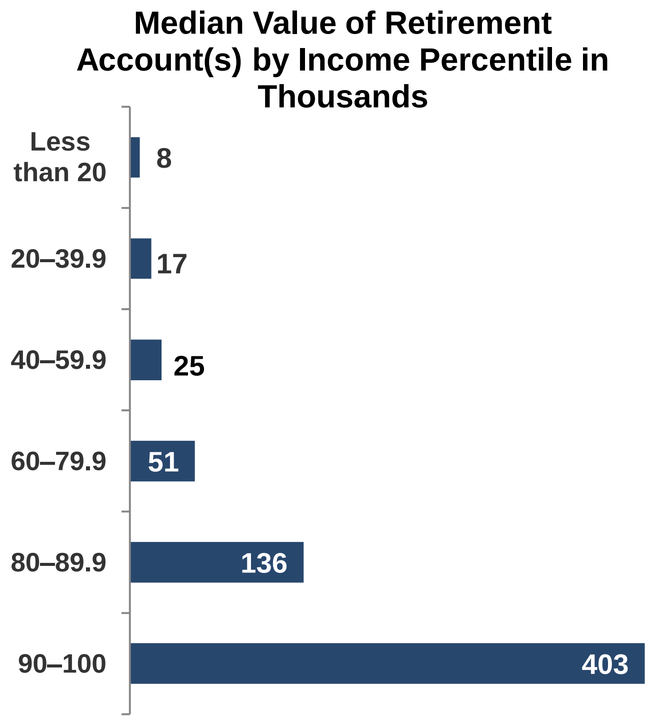
# Only the highest income households have significant savings

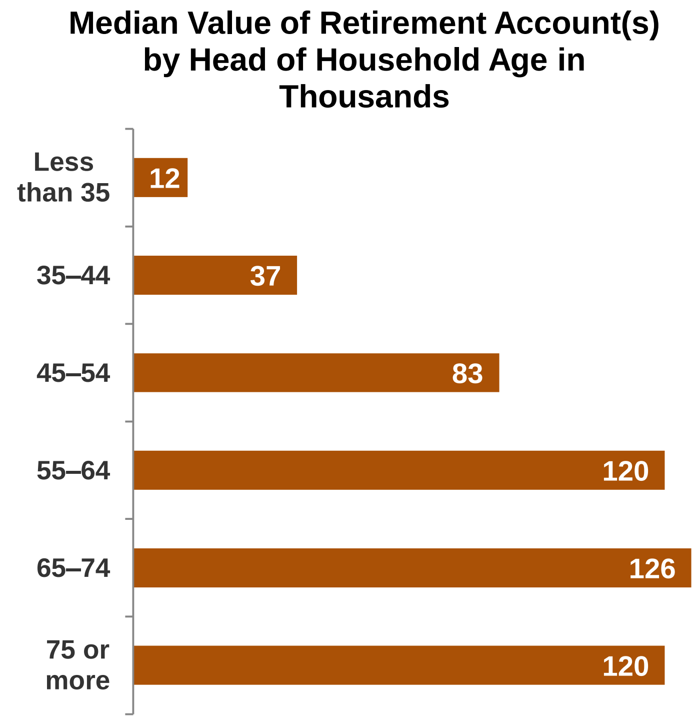
**How much do you have in savings today (in cash, checking, and account balances) by Household Income (Non-retired)**



# Saving correlates strongly with income

- Age and Income are two characteristics that strongly relate to retirement savings, but income is stronger.






National Statistics

# The Process of Retirement

- Retirement funding is a four-step process.

**Envision**
- Build a vision of the retirement you want
- Understand and control finances (particularly for lower incomes)

**Plan**
- Estimate the cost of that retirement and the amount you need to save for that income
- Adjust vision  or savings plan as necessary compared to means

**Execute**
- Begin saving as soon as possible, as young as possible
- Optimize investing

**Maintain**
- Maintain or increase savings rate over time
- Protect against derailment

# Barriers as a Part of the Process

| Barrier | Part of Process | What It Means |
|---|---|---|
| No vision for retirement | Envision | What lifestyle do you envision in retirement? Must match savings to the dream. |
| No long-term mindset | Envision/Plan | Not starting early enough. |
| No planning projections | Plan | Not reconciling vision with resources/savings. |
| Suboptimum investments | Execute | Not maximizing your return. |
| Not enough resources | Execute | Not enough income to save. |
| Not prioritizing retirement savings | Execute/Maintain | Not taking advantage of the long-term payoff of investing as soon as possible. |
| Derailment | Maintain | Not protecting yourself from situations that stop contributions or lead to withdrawals. |

# Step 1: Envisioning

- **Barrier:** People do not seriously think about preparing for retirement because it's far away. They lose the advantage of compound interest.
- **Observation:** Visions of retirement can be culturally defined. Retiring into a "cushy" lifestyle is inherently part of the American dream. However, optimism in achieving this is dwindling and in turn, how people envision their retirements may change.
- **Strategy:** Envision the "future you" and understand what the "future you" needs and wants. Consider health care costs and the ability to generate income in retirement. *This can help all ages and most income groups, even if they're already saving.*

"I want to make sure I have enough for retirement so that I'm not in the same financial situation as my mom (78), who still has to work part-time just to make ends

security."

"What is your definition of retirement? Do you want to travel or move in with your kids or something else? Are you healthy? What's your family

# Step 2: Planning

- **Barrier:** Understand how much you need, and how much to save to get there.
  - By the time people reach retirement age, they do not anticipate having large amounts of debt such as home mortgages, student loans, and car payments. However, rising healthcare costs may cancel out any financial gains people expect to have by not having mortgages, loans, and car payments.
- **Barrier:** There's a belief that you can catch up later. No. You have to start early.
  - Importance of starting savings early is imperative. Some believe starting financial literacy education early will impress the importance of savings from a young age.
- **Strategy:** Attitudes that take the long view are associated with saving behavior when controlling for confounds. *This helps all, but has more impact with younger people.*

"I'm not that confident [about saving enough for retirement]. Student loan payments take up a significant amount of my take home pay leaving little to invest. I am doing 4% of my income and my employer matches but I didn't start until I was almost 30."

"When I'm planning a vacation, I plan a lot. And retirement is a lifelong process with a lot of questions and decisions, and it's not thought about until it's too

# Behavioral and attitudinal correlates of saving

| Increases Saving (Decreases probability of under-saving) | No relationship | Decreases Saving (Increases probabilities of under-saving) |
|---|---|---|
| • Financial Socialization<br>• Long financial time horizon<br>• Delayed financial gratification<br>• Self reported habit of saving and ease of saving<br>• Financial knowledge (Knoll and Houts) | • Life satisfaction<br>• General optimism<br>• Belief that hard work pays off financially in the future<br>• Understanding percentages<br>• Materialism<br>• Perceived economic mobility<br>• Self reported self-control | • Self-reported frugality<br>• Self-reported disrespect from financial institutions |

**Controls: household income, age, ethnicity, education, gender**

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**Controls: household income, age, ethnicity, education, gender**

Controlling for demographics, financial socialization and financial literacy independently increase saving behavior. They are trainable attributes.

# Financial socialization and financial literacy are key to successful retirement

| Financial Socialization<br><br>As a child, I had… | Financial Literacy<br><br>I understand… |
|---|---|
| • Had an allowance<br>• Had a savings account<br>• Talked with parents about how to be a savvy shopper<br>• Discussed family financial matters<br>• Discussed how to establish a good credit rating<br>• Spoke about the importance of saving<br>• Taught me that my actions determine my success in life | • Diversification<br>• Insurance<br>• Investing risks<br>• Interest impacts<br>• Bonds<br>• Volatility<br>• Long-term returns. |

# Financial socialization is key to successful retirement

- Literature: Kids begin developing spending habits around the age of seven and parents today are trying to discuss money even if this is a departure from how they were raised (Kobliner, 2018). Thus, while 90% of parents feel that they must be the ones to teach their children sound financial habits, 49% also admitted that they don't know how to talk to their kids about money (Parents Want Help Teaching Their Kids Good Financial Habits, Edelman Financial Engines Survey Finds, 2019)
- In a study of millennials who struggle with financial capability, many expressed that they want to teach their children financial responsibility, how to save, and the value of hard work (LeBaron, Rosa-Holyoak, Bryce, Hill, & Marks, 2018). To proactively build financial capability of children, parents must be actively engaged in financial education programs (Van Campenhout, 2015). However, this parent to child knowledge transfer becomes difficult when parents are not financially literate themselves.

> " We've been trained to never talk about personal finance, and we need to change. People approach it with shame."

# Step 3: Executing - Process

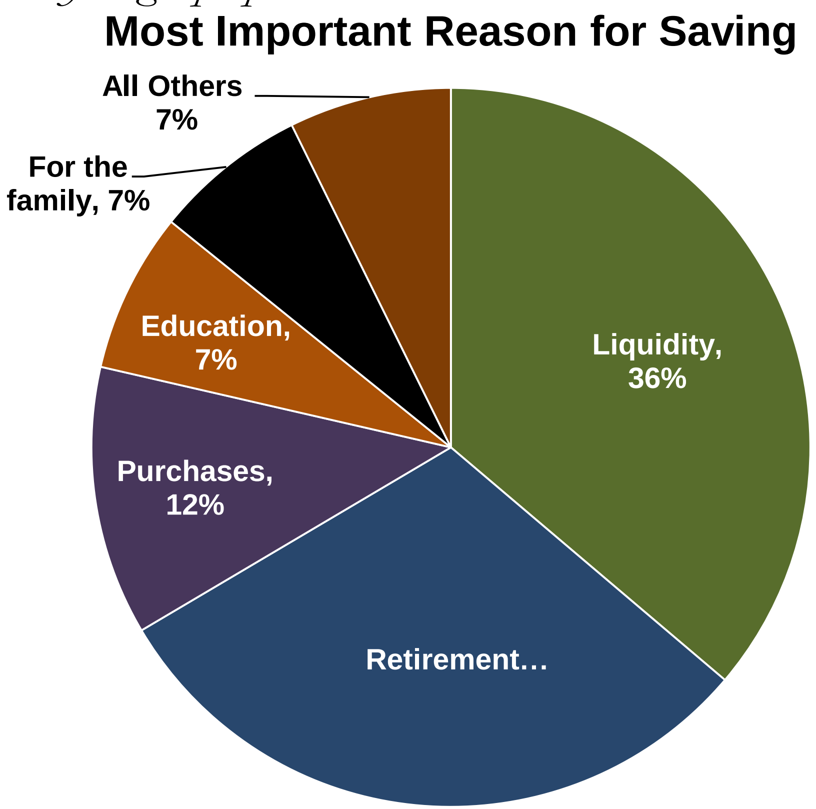
- **Barrier:** Some people don't have systems for saving.
- **Strategy:** Having a retirement account correlates with increased savings, even after controlling for household income, age, ethnicity, education, and gender.
- **Strategy:** Out-of-sight, out-of-mind makes savings easier. Having an employer sponsored retirement plan where deductions are automatically made from paychecks makes it easier for people to save. Self-employed people, therefore, may struggle to save as much as people at their same age or income level, due to need for active savings behaviors as opposed to passive.
- **Strategy:** There is a need to dismantle some of the barriers to starting savings early (i.e. minimum amounts for open accounts/investments, etc).
- **Strategy:** Use technology to people's benefits (e.g., impulse saving, rounding saving, etc.)

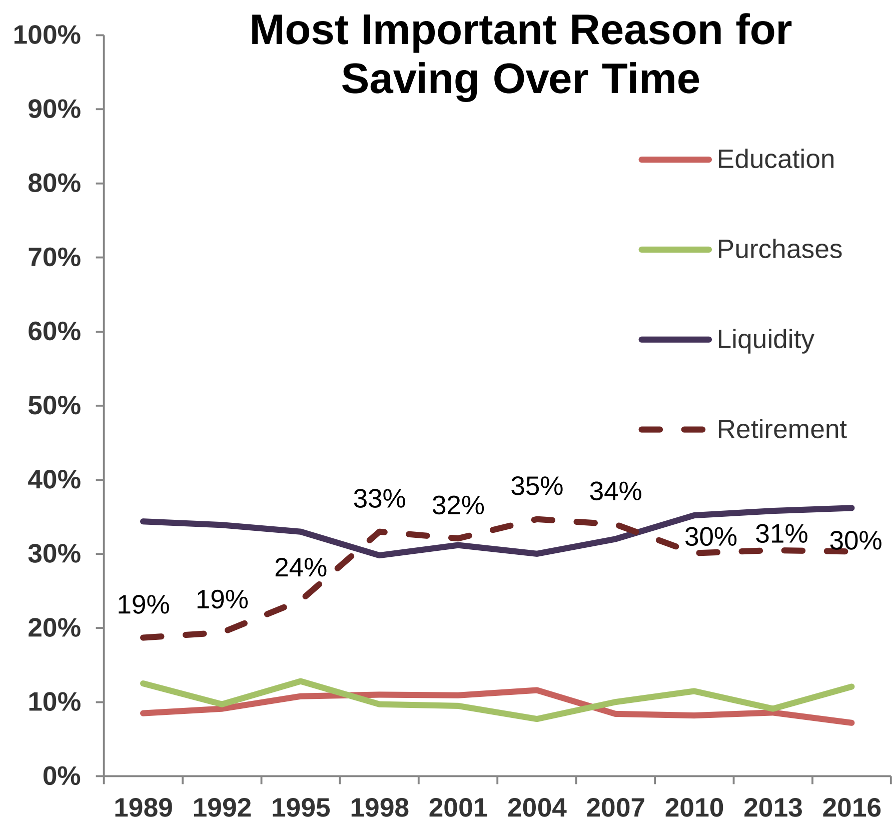
*These can particularly help those who aren't currently saving.*

"Right now I don't really have a solidified strategy for retirement. I am self employed, so I do not have any work retirement plans...etc. My "general" savings plan is to keep working hard and once the kids are in full day school I can really focus on work and bringing in more money so that we can start saving, rather than working paycheck to paycheck."

# Step 3: Executing - Process

- **Barrier:** Many people don't prioritize retirement savings.
- **Strategy:** Education on long-term benefits is needed. *These can help all groups, particularly younger people.*






National Statistics

# Step 3:  Executing - Process

- **Barrier:** Some people simply don't have enough income to save money.
- **Observation:** 27 percent of people are living below a subsistence level in Colorado. If people are making just enough to get by, plans to save are not within reach
- **Observation:** Expert interviews: retirement savings messages to this population are not going to be effective. Other financial messaging can be useful, though.
- **Observation:** Legacy resources are important to wealth, and may disproportionately affect minority populations.
- **Observation:** Remember that poverty is transient for most people.
- **Strategy:** Focus on short-term financial literacy and understanding where expenditures are going.

"A large proportion of the population is barely making ends meet, so they're worried more about

# Step 3: Executing - Outcomes

- **Barrier:** Lack of financial literacy may lead to suboptimal returns.
- **Observation:** Getting proper returns by understanding risk and reward in the long term is key, and can sidestep the problem of having limited resources to invest.
- **Strategy:** Increasing financial literacy can help people make the most of what they are saving. *This particularly helps people who are already saving.*

‘A major step is figuring out how to save. Even if they have an idea, they’re not maximizing their value. They’re not putting it into

‘Get better returns and you don’t have to put as much in. Don’t be too conservative.”

# Step 4: Maintaining

- **Barrier:** Derailment is a common roadblock to developing retirement savings. Life events such as health issues or job loss can lead to a halt in contributions or even withdrawal from accounts.
- **Strategy:** Developing emergency funds and having proper insurance is key. *This helps those who are already saving.*

# Strategies to Increase Retirement Savings

| Part of Process | Barrier | Strategy |
|---|---|---|
| Envision | • No vision for retirement<br>• No long-term mindset | Promote/support the visioning process.<br>Financial socialization |
| Plan | • No long-term mindset<br>• No planning projections | Financial socialization<br>Financial literacy |
| Execute | • Suboptimum investments<br>• Not prioritizing retirement savings<br>• Not enough resources | Financial literacy<br>Other financial counseling |
| Maintain | • Not consistently saving | Financial literacy/insurance |

# Thinking Out of the Box

- Promote health
  - A healthy retirement makes money last longer
  - Stress can impact decision making and long-term perspective.
- Promote "getting control of your finances", particularly for lower income households
  - Consensus that retirement savings messages are not productive and can be detrimental for low-income households. Other financial counseling and policy can be productive.
- Consider alternative approaches such as part time work, sabbatical to rebuild energy, etc.
  - For some people, it may simply be too late to fully fund retirement.
- Envisioning retirement is a key first step in the process
  - This has to happen first. It may be a good foundational message.

# Key Findings: Submarkets of Interest

- Low-income
  - General belief that it's genuinely not possible to increase retirement savings for roughly 27 percent of the Colorado population.
    - Policy is key here.
    - Encourage people to get control of finances, which is a key first step.
    - Approach finances as part of health, to minimize stress.
- Youth
  - Financial socialization is key
  - 2Gen strategy – work with parents to train their kids, and you can also increase financial literacy among parents.

# Key Findings: Submarkets of Interest

- Young adults
  - Start saving early, develop a vision for retirement and plan.

> "Gen Z. That young age group. Time on your side. Get them on board. It's a population that has uncertainty about their future, they want to optimize. They're more open to ideas. They've always had access to information. Gen Z is skeptical of what they're seeing on the internet and they want to learn. They're a big population too, the size of the baby boom. It's also a generation that values lifestyle, and they're more independent. They move around and make decisions based on lifestyle. They may not buy the three-bedroom house. People in their forties

# Key Findings: Submarkets of Interest

- Middle income
  - Focus on starting, increasing amounts
  - Basic financial literacy
- Higher income
  - Focus on legacy and giving
- Older without savings
  - It's never too late.
  - Anything helps.
  - Consider alternatives to traditional retirement

# Key Findings: Submarkets of Interest

- Women
  - Tend to live longer
  - More likely to have earnings gaps that hurt contributions
  - Literature: Increases in financial literacy translates into higher wealth acquisition for women more so than men (Bannier & Schwarz, 2018). Women must also learn financial self-efficacy, or believe they can act upon their own financial capabilities, to more effectively invest and save (Farrell, Fry, & Risse, 2016).
  - Literature: A gendered approach towards youth financial education may also help combat stereotypes of how girls, from a young age, receive less financial education than boys and thus have less financial capability later in life (Driva, Lührmann, & Winter, 2016; Agnew & Cameron-Agnew, 2015).

# A Thought About Evaluation

- The RFP asks for demographics that are candidates to save more, and an estimate on how much more they would/could save. However, that may not maximize impact.
  - $1 saved for a lower income family may have more “societal good” impact that $1 saved for a higher income family.
  - Getting a younger person to start saving will have more long-term impact on the person and society (albeit with a longer time to realize those benefits).
  - Some “pre-steps” may be necessary that don’t produce added savings as an immediate benefit, but help set people up to save or be self-sufficient.

# Key Findings: Deliverers of Messaging

- Experts believe that employers are the most logical and obvious messaging partner (for residents who are in the work force).
  - Government may be a messaging partner for those not in the work force.
  - Some belief that financial services institutions should add pro bono services to middle and lower income groups, and leverage technology to increase their reach.
- There is some distrust among Colorado residents of the government and financial institutions in general. As such, people may not listen to positively receive messaging from these sources.
  - Instead, they want to receive information from people with a history of successful savings strategies, or people who have obtained a similar lifestyle that they aspire to have.

# Key Findings: Deliverers of Messaging

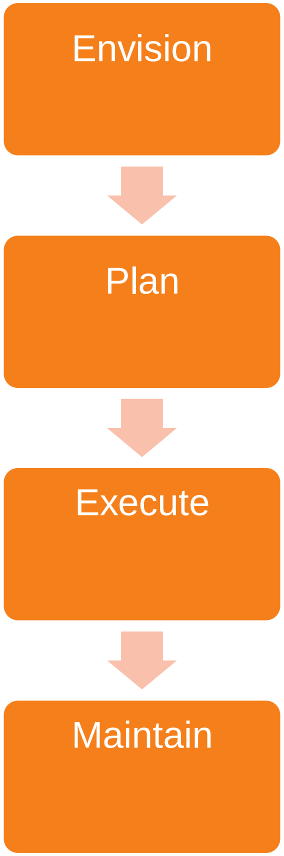
- Most respondents said they do not believe their employer has a role in their retirement savings aside from providing a paycheck. Interestingly though, we are seeing a trend where younger people are more interested in being employed by companies that invest in the people, and thus, the role of employers in financial education and literacy may increase.

> “Employers that want to retain their valuable workforce need to have some system for supporting them as they think ahead to retirement. Pensions or 401Ks that are an equal partnership are

# Next Steps – Phase 2

# Initial Thoughts on Phase 2

- Quantitative
  - Confirm that national data on savings mirrors Colorado data.
  - Test message themes by demographic.
  - Measure the relative sizes and demographics of barriers to retirement savings.
- Qualitative
  - Test messaging regarding communication of financial information, training in financial literacy.
  - Develop and test message themes for specific barriers.
  - Test financial literacy concepts



# About Corona Insights

Our founder named the company Corona because the word means "light." It's the knowledge that surrounds and illuminates an issue; exactly what we provide. Our firm's mission is to provide accurate and unbiased information and counsel to decision makers. We provide market research, evaluation, and strategic consulting for organizations both small and large.

*Learn more at www.CoronaInsights.com*

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